

# U.S. Soybean and Soybean Meal Exports to the EU: Factors Impacting Declining Sales

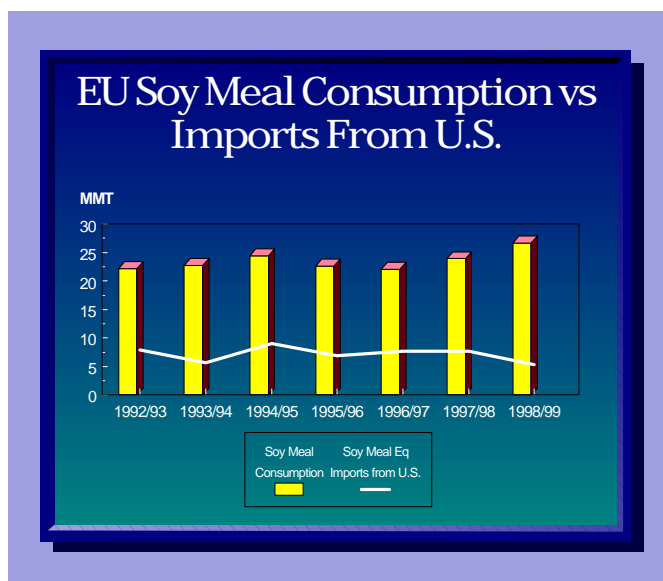
## The EU Remains an Important Market for U.S. Soybean and Soybean Meal Exports

Soybean and soybean meal exports account for slightly less than 50 percent of U.S. soybean production. Asia and the EU are major U.S. export destinations and combined accounted for 77 percent of exports between 1992/93 and 1997/98. Prior to 1996/97, the EU was the largest export destination but has recently been eclipsed by Asia. Despite this, the EU continues to be an important market for U.S. soybeans and soybean meal.

Soybean meal consumption in the EU continues to show growth. Since 1989/90, soybean meal consumption in the EU has grown 29 percent to 26.7 million tons in 1998/99. This compares to 38 percent growth for the U.S. with total consumption in 1998/99 at 27.9 million tons. Soybean production in the EU remains small relative to total oilseed consumption with only Italy and France producing significant quantities. Therefore, much of the growth in soybean meal utilization in the EU has come from increased imports of soybeans and soybean meal.

## U.S. Exports Fail to Keep Pace with Growing EU Consumption

U.S. exports to the EU have not kept pace with growing EU soybean and soybean meal consumption. Since peaking in 1994/95, U.S. exports of soybeans and soybean meal (converted to soybean equivalent) have declined 40 percent to 6.7 million tons. Much of this decline occurred in 1998/99 when exports declined 30 percent from the previous year. Some have pointed to the recent controversy over GMO feeds as a possible explanation for the decline in U.S. exports in 1998/99. However, there is no evidence of a dual market for GMO/non-GMO soybeans and meals in the EU. In fact, imports of Argentine soybean meal, which contain GMOs, were up significantly in 1998/99.

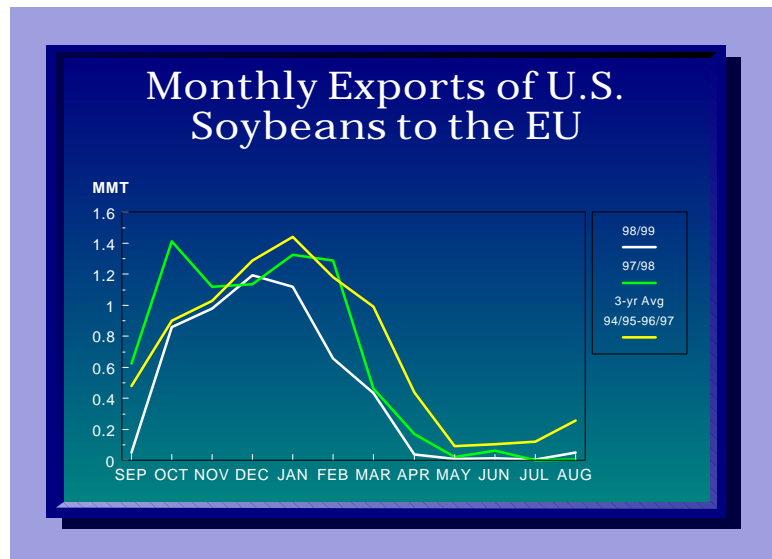


## U.S. Exports Decline in Face of Growing South American Production

A more likely explanation of the decline is associated with the expanded production of soybeans in Argentina and Brazil. A closer look at trade data reveals a strong relationship between the expansion in South American soybean supplies and the decline in U.S. exports. Traditionally, the U.S. has played the role of residual supplier of soybeans and products. Both Argentina and Brazil generally process and/or ship all current year production leaving the U.S. to ship during the period when South America has exhausted its supplies. Traditionally, this has relegated U.S. soybean and soybean meal exports to the period between September and March. With increased South American production over the past two seasons, it has taken longer for South America to clear its stocks of soybeans and products.

This has reduced the window of opportunity for U.S. exports resulting in lower export volumes for the year.

A review of monthly U.S. soybean export activity shows a premature slowing of U.S. exports in March 1998, nearly a month earlier than the long term trend and corresponding to the large South American harvest in early 1998. Similarly, U.S. exports failed to rebound until October 1998, two months later than expected and generally began to slow a month earlier in 1999. The impact of the larger South American crops in 1998 and 1999 effectively reduced the export window for U.S. soybeans and products by two months and reduced monthly export volume.



Another contributing factor has been the elimination of Brazil's export tax on soybeans. Elimination of the tax has improved Brazil's competitiveness in the soybean export market and helped boost Brazil's exports of soybeans relative to soybean meal. With the U.S. traditionally stronger in the soybean market relative to soybean meal, a move toward increased soybean exports by Brazil places more pressure on U.S. exports than would growth in soybean meal exports. Additionally, fierce competition among Brazilian crushers has resulted in significant discounts on Brazilian soybean meal relative to the U.S. helping to make Brazilian soybean meal more attractive to EU buyers in 1999.

### **Larger Rapeseed Crop Hurts Demand for Soybeans in the EU**

Increased EU rapeseed production, up 1.0 million tons in 1999, has also impacted the demand for soybeans. The larger supply of rapeseed has displaced some soybeans increasing competition for available crush capacity and increasing rapeseed meal supplies. In addition, larger supplies of rapeseed oil in the EU resulting from the increased crush reduces the demand for soybean oil in an already surplus EU vegetable oil market. This provides an additional disincentive for importing soybeans for crush.

### **U.S. Export Outlook Improving for 1999/2000**

The outlook for soybean and soybean meal sales to the EU in the coming year appears to be improving. A smaller rapeseed crop expected for the EU in 2000, and a slow down in soybean production growth in South America may improve opportunities for U.S. exports to the EU in the coming year. U.S. export sales currently show a rebound in exports this year compared to last year's low level. Despite the encouraging news, it is not likely that exports will return to the levels experienced in 1997/98. South American soybean production continues near record levels and will continue to provide stiff competition for U.S. soybeans and meal at least for the short term.

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